

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	ISEC IN
Equity Shares (m)	322
M.Cap.(INRb)/(USD\$b)	136.7 / 1.8
52-Week Range (INR)	569 / 308
1, 6, 12 Rel. Per (%)	8/-20/-25
12M Avg Val (INR M)	293

### Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Revenues	25.9	27.3	29.1
Opex	11.6	12.7	13.8
PBT	14.3	14.6	15.3
PAT	10.7	10.9	11.4

### Ratios

C/I ratio (%)	44.7	46.5	47.4
PAT margin (%)	41.3	39.9	39.3
RoE (%)	70.4	55.0	49.9
Div. Payout (%)	65.0	70.0	75.0
EPS	33.1	33.9	35.5

### Valuations

P/E (x)	12.8	12.5	11.9
P/BV (x)	7.5	6.4	5.6
Div. Yield (%)	5.1	5.6	6.3

### Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	75.0	75.0	79.2
DII	9.0	9.9	11.5
FII	3.7	4.6	3.2
Others	12.2	10.5	6.2

FII Includes depository receipts

**CMP: INR424**      **TP: INR650 (+53%)**      **Buy**

### Strong customer acquisition; Distribution segment healthy

- 4QFY21 was another robust quarter in an overall strong year for ISEC. PAT more than doubled YoY to INR3.3b (45% beat), driven by 54% growth in revenue, coupled with significantly lower C/I ratio.
- In FY21, ISEC delivered 50%/97% revenue/PAT growth. We increase our FY22E/FY23E EPS estimate by ~10% to factor in healthy brokerage revenue. Maintain Buy with a TP of INR650/share (18x FY23E EPS).

### Retail Broking: Pick-up in customer acquisition drives healthy topline

- ISEC added 350k new customers v/s 139k QoQ. Of this, 220k customers were added through the Digital channel initiated last year. Around 55% of such accounts are being opened by non-ICICIBC channels.
- The activation rate jumped to 84% from mid-60s levels in the past two quarters. **As a result, the number of NSE active clients increased to 1.6m from 1.3m QoQ.**
- However, its cash market share dipped by ~100bp to 9.5% QoQ.** In the F&O segment, ISEC's market share had dropped to 3.5% in Dec'20 post the implementation of new regulations. The company largely maintained its market share (~3%) in 4QFY21.
- Retail Broking revenue improved 7% QoQ to INR3.5b despite the moderation in market share.

### Strong performance in the distribution financial products too

- Distribution revenue was up 22% YoY to INR1.41b (QoQ not strictly comparable due to seasonality). This was driven largely by all segments.
- In MF distribution, the SIP count increased 12% YoY to 0.74m, while ISEC's market share improved 75bp YoY to 4.05%. Overall MF AUM was up 20% YoY to INR413b.**
- The Institutional Equities segment delivered 30% YoY revenue growth to INR480m. Given the buoyant capital market, revenue from Investment Banking more than doubled QoQ to INR533m.

### Other highlights

- C/I ratio declined 200bp QoQ and 17pp YoY to 40%. The management has guided at near term C/I ratio above these levels.**
- The lending book grew 37% QoQ to INR25.7b.

### Valuation and view

Changes in ISEC's product and sourcing strategy have yielded results over the past year. The 'NEO' plan has helped counter competition from discount brokers as well as some traditional brokers who offer discount plans. We are now seeing the digital sourcing model gain strong traction in terms of customer acquisition. After a few turbulent years, the Distribution business has stabilized. The impact of regulations on margin, coupled with overall trends in industry volumes, would be key to watch out for in FY22E. **We raise our FY22E/FY23E EPS estimate by ~10%. Maintain Buy with a TP of INR650 per share (18x FY23E EPS).**

Research Analyst: **Alpesh Mehta** (Alpesh.Mehta@MotilalOswal.com) | **Piran Engineer** (Piran.Engineer@MotilalOswal.com)

**Nitin Aggarwal** (Nitin.Aggarwal@MotilalOswal.com) | **Divya Maheshwari** (Divya.Maheshwari@motilalosal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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## Quarterly performance

(INR m)

Y/E March	FY20				FY21				FY20	FY21	4QFY21E	Actual v/s estimate (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Revenue from Operations	3,865	4,170	4,222	4,804	5,460	6,807	6,201	7,393	17,062	25,862	5,957	24
Other Income	156	12	4	15	4	-2	-1	0	187	0	0	
<b>Total Income</b>	<b>4,021</b>	<b>4,182</b>	<b>4,227</b>	<b>4,819</b>	<b>5,464</b>	<b>6,805</b>	<b>6,200</b>	<b>7,393</b>	<b>17,249</b>	<b>25,862</b>	<b>5,957</b>	<b>24</b>
Change YoY (%)	-7.7	-8.7	4.4	12.5	35.9	62.7	46.7	53.4	-0.1	49.9	23.6	
Operating Expenses	2,261	2,341	2,376	2,742	2,870	3,082	2,622	2,980	9,720	11,554	2,916	2
Change YoY (%)	-3.1	-6.5	-3.7	14.5	26.9	31.6	10.4	8.7	0.2	18.9	6.3	
<b>PBT</b>	<b>1,760</b>	<b>1,841</b>	<b>1,851</b>	<b>2,077</b>	<b>2,594</b>	<b>3,723</b>	<b>3,578</b>	<b>4,413</b>	<b>7,529</b>	<b>14,308</b>	<b>3,041</b>	<b>45</b>
Change YoY (%)	-13.1	-11.4	17.1	10.0	47.4	102.2	93.3	112.4	-0.6	90.0	46.4	
Tax Provisions	622	490	479	519	663	942	908	1,118	2,109	3,631	773	45
<b>Net Profit</b>	<b>1,138</b>	<b>1,351</b>	<b>1,372</b>	<b>1,559</b>	<b>1,931</b>	<b>2,782</b>	<b>2,670</b>	<b>3,295</b>	<b>5,420</b>	<b>10,677</b>	<b>2,267</b>	<b>45</b>
Change YoY (%)	-15.0	0.7	35.6	28.3	69.7	105.9	94.6	111.4	10.4	97.0	45.5	
<b>Key Operating Parameters (%)</b>												
Cost-to-Income Ratio	56.2	56.0	56.2	56.9	52.5	45.3	42.3	40.3	56.4	44.7	51.6	
PBT Margin	43.8	44.0	43.8	43.1	47.5	54.7	57.7	59.7	43.6	55.3	48.4	
Tax Rate	35.4	26.6	25.9	25.0	25.6	25.3	25.4	25.3	28.0	25.4	25.7	
PAT Margin	28.3	32.3	32.5	32.3	35.3	40.9	43.1	44.6	31.4	41.3	36.0	
<b>Revenue from Operations (INR m)</b>												
Retail Brokerage Income	1,893	1,833	1,961	2,501	3,210	3,534	3,242	3,461	8,188	13,447		
Institutional Brokerage Income	306	326	285	372	348	386	380	485	1,289	1,599		
Investment Banking	167	323	176	99	223	623	234	533	765	1,613		
Distribution Income	984	1,062	1,029	1,155	798	990	1,079	1,412	4,230	4,279		
Other servicing Income	10	67	84	62	103	285	275	405	223	1,069		
Interest Income	501	535	602	712	624	898	893	1,034	2,350	3,449		
Other Operating Income	4	24	86	-96	154	90	98	64	17.7	406		
<b>Revenue from Operations Mix (%)</b>												
Retail Brokerage Income	49.0	44.0	46.4	52.1	58.8	51.9	52.3	46.8	48.0	52.0		
Institutional Brokerage Income	7.9	7.8	6.7	7.7	6.4	5.7	6.1	6.6	7.6	6.2		
Investment Banking	4.3	7.7	4.2	2.1	4.1	9.2	3.8	7.2	4.5	6.2		
Distribution Income	25.5	25.5	24.4	24.0	14.6	14.5	17.4	19.1	24.8	16.5		
Other servicing Income	0.3	1.6	2.0	1.3	1.9	4.2	4.4	5.5	1.3	4.1		
Interest Income	13.0	12.8	14.2	14.8	11.4	13.2	14.4	14.0	13.8	13.3		
Other Operating Income	0.1	0.6	2.0	-2.0	2.8	1.3	1.6	0.9	0.1	1.6		
<b>Opex Mix (%)</b>												
Employee Expenses	56.3	57.2	55.9	50.9	60.2	58.3	49.5	0.0	54.9	50.9		
Depreciation	6.9	6.3	6.2	5.9	4.7	4.2	5.2	0.0	6.3	4.7		
Interest Expense	7.9	7.6	9.2	10.5	8.0	9.2	9.7	0.0	8.9	9.3		
Others	28.9	28.9	28.6	32.6	27.1	28.2	35.6	0.0	29.9	35.1		
<b>Other Parameters (%)</b>												
Blended MS	7.4	7.3	8.7	8.0	9.0	8.9	6.5	3.2				
Equity MS	8.1	8.7	8.9	9.1	10.7	11.1	10.5	9.6				
Derivatives MS	7.4	7.3	8.7	8.0	8.9	8.8	6.3	3.0				
NSE Active Customer MS	9.8	10.1	10.0	10.0	9.2	8.4	0.0	0.0				
No. Of Branches	198	187	178	172	171	156	151	148				
Network Partners	7500+	8000+	8600+	9400+	12100+	13600+	15200+	0.0				

E: MOFSL estimates



## Highlights from the management commentary

### Business updates

- Industry cash ADTO moderated in Mar'21 (when the regulatory norms on margin funding further tightened) while F&O ADTO remained unaffected.
- Slight decline in market share in the F&O segment in Mar'21 is due to higher leverage and greater share of intraday products as compared to the industry.
- The management said that one-click investment for MFs on its app is the key reason for market share growth in SIP.
- ARPU for active retail customers rose to 10.1k YoY in FY21 from 8.7k in FY20.
- As per the management, the minor loss in cash volumes market share is due to intraday trades rather than delivery trades.
- The company is disbursing INR5b loans per month v/s INR2-2.5b earlier. It has tie-ups with eight different financiers. Typically, ISEC earns 75-125bp as fees on these disbursements.
- Sustainable employee cost-to-income ratio would be 25-27%. The overall C/I ratio would not be sustainable at 4QFY21 levels of 40%.
- ISEC expects the customer acquisition run-rate of 100k per month to continue.

### Others

- Leverage, tools, and pricing are the three competitive vectors in the F&O segment. Historically, ISEC used to compete on leverage, but now it will work on the other two also.
- Cash constitutes over 50% of total Retail Broking revenue. Contribution of Delivery trades to overall cash trading revenue is over 50%.
- MTF yields are starting at 8.9%. ISEC's MTF market share has risen to 19.3% from 18.5% (specify period).
- Increase in fee and commission expense is due to higher IB revenue, revenue sharing arrangement with ICICIBC, and strong growth in revenue from the partner channel.
- The management is focused on digital marketing and new tie-ups.
- The NEO plan is being offered to all customers. About 60k customers have subscribed to the plan so far. There is a one-time fee of INR300.
- Tie-up with FB for a 3-in-1 account is similar to that with ICICIBC. The customer float remains with the bank and not with ISEC. Revenue share with FB is the same as that with ICICIBC (35%/25% of revenue sharing in the first/second year).
- ISEC has smoothed the digital account opening process in Dec'20.
- Annual subscription revenue from Prime clients stands ~INR600m.
- The management said ISEC holds the float in the digital acquisition model.

### Valuation and view

- ISEC is a classic play on increasing financialization of savings and retail participation in the equity market. Thus, its business and profitability is cyclical.
- During the downcycle of the past two years, the company took several initiatives to make its business leaner and well-gearred for the upcycle. Initiatives such as the tie-up with ICICIBC; 'Prime', 'Prepaid', and 'Options 20' models; etc. have started to yield results.
- **Post COVID-19, the Retail Brokerage segment in India has benefitted from tailwinds of increased trading activity from retail customers, especially in Tier**

**II and III cities. Customer acquisition for the industry has seen an upsurge over the past nine months. ISEC is well-placed to benefit from sectoral tailwinds.**

- The 'NEO' plan has helped counter competition from discount brokers as well as some traditional brokers who offer discount plans. We are now seeing the digital sourcing model gain strong traction in terms of customer acquisition.
- After a few turbulent years, the Distribution business has stabilized. The impact of regulations on margin, coupled with overall trends in industry volumes, would be key to watch out for in FY22E.
- We raise our FY22E/FY23E EPS estimate by ~10%. **Maintain Buy with a TP of INR650 per share (18x FY23E EPS).**

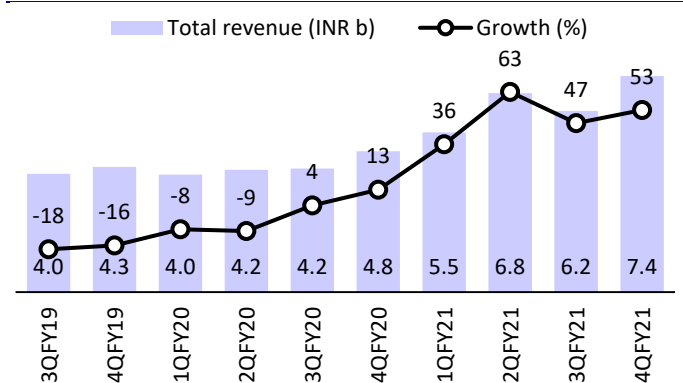
**Exhibit 1: Upgrade our FY22E/FY23E EPS estimate by ~10% on better operating performance**

INR b	Old Estimate		New Estimate		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Brokerage Income	13.8	14.5	15.3	15.5	11.0	6.2
Income from services	7.1	8.0	7.7	8.8	9.0	10.3
Other Income	4.3	5.0	4.3	4.9	1.1	-1.8
<b>Total Income</b>	<b>25.1</b>	<b>27.5</b>	<b>27.3</b>	<b>29.1</b>	<b>8.7</b>	<b>6.0</b>
Operating Expenses	12.1	13.4	12.7	13.8	5.4	2.7
<b>PBT</b>	<b>13.1</b>	<b>14.1</b>	<b>14.6</b>	<b>15.3</b>	<b>11.8</b>	<b>9.1</b>
Tax	3.3	3.6	3.7	3.9	11.7	9.0
<b>PAT</b>	<b>9.8</b>	<b>10.5</b>	<b>10.9</b>	<b>11.4</b>	<b>11.9</b>	<b>9.1</b>
C/I ratio	48.0	48.9	46.5	47.4		
RoE	59.3	53.8	55.0	49.9		
Dividend payout ratio	70.0	70.0	70.0	75.0		

Source: MOFSL, Company

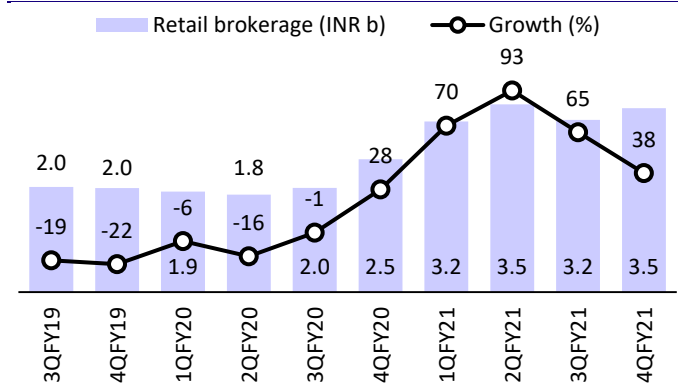
## Key exhibits

**Exhibit 2: Revenue growth remains healthy...**



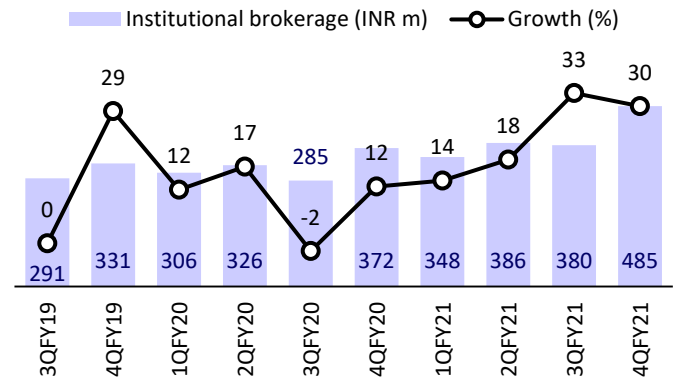
Source: MOFSL, Company

**Exhibit 3: ...driven by Retail Brokerage**



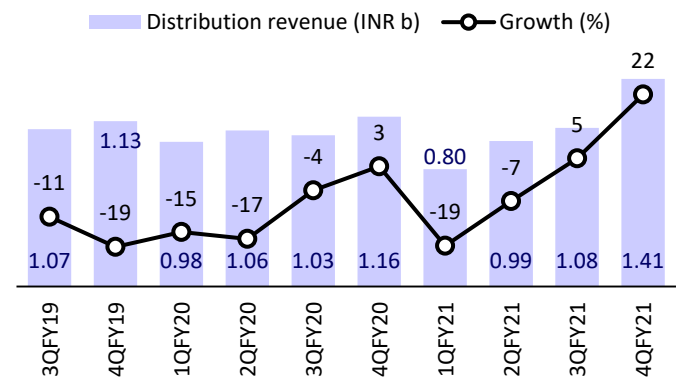
Source: MOFSL, Company

**Exhibit 4: Strong revenue from Institutional Brokerage**



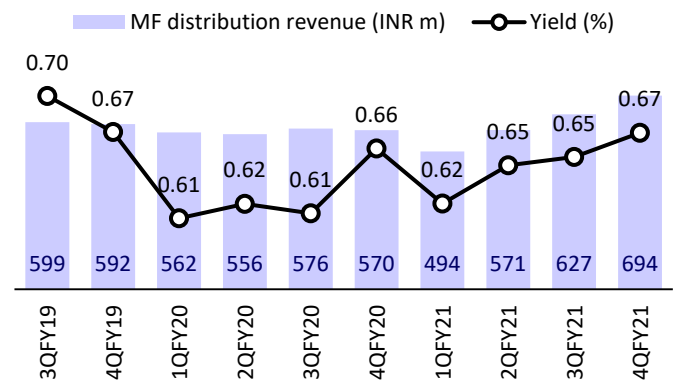
Source: MOFSL, Company

**Exhibit 5: Distribution revenue picks up seasonally**



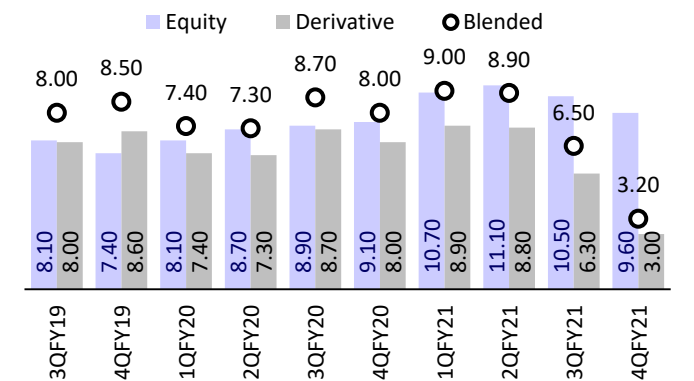
Source: MOFSL, Company

**Exhibit 6: MF distribution yields largely stable**



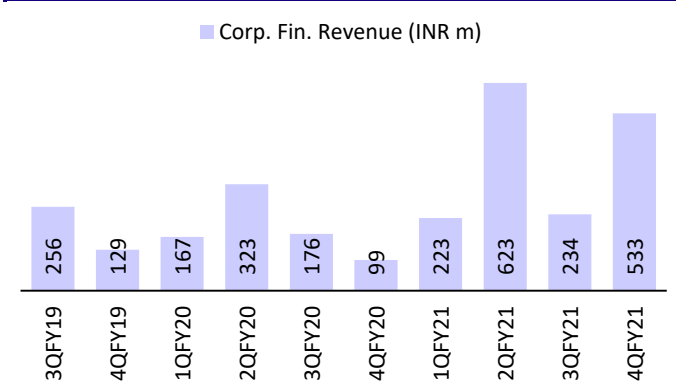
Source: MOFSL, Company

**Exhibit 7: 90bp QoQ moderation in equity market share (%)**



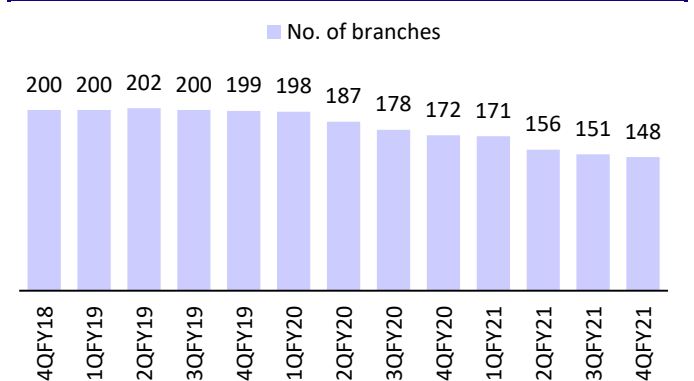
Source: MOFSL, Company

**Exhibit 8: Trend in Investment Banking revenue**



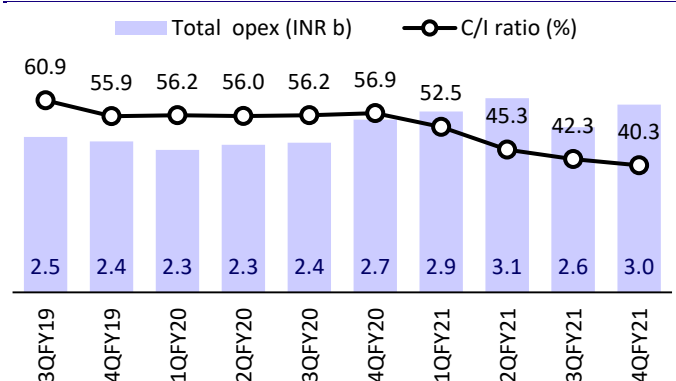
Source: MOFSL, Company

**Exhibit 9: Ongoing branch rationalization**



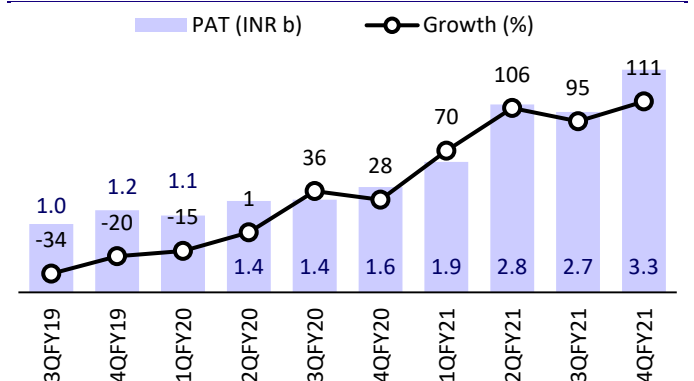
Source: MOFSL, Company

**Exhibit 10: C/I ratio declines 200bp QoQ**



Source: MOFSL, Company

**Exhibit 11: Trend in PAT**



Source: MOFSL, Company

## Financials and valuations

<b>Income Statement</b>						<b>(INR m)</b>		
<b>Y/E March</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
<b>Total Income</b>	<b>14,042</b>	<b>18,610</b>	<b>17,270</b>	<b>17,249</b>	<b>25,862</b>	<b>27,340</b>	<b>29,142</b>	<b>31,968</b>
Change (%)	24.9	32.5	-7.2	-0.1	49.9	5.7	6.6	9.7
Brokerage Income	7,756	10,243	9,328	9,476	15,045	15,302	15,454	16,394
Income from Services	4,982	6,552	5,733	5,218	6,961	7,724	8,823	10,097
Interest Income	1,091	1,574	1,792	2,350	3,449	4,138	4,635	5,191
Other Operating Income	214	241	193	19	407	176	231	286
Other Income	0	0	225	187	0	0	0	0
<b>Operating Expenses</b>	<b>8,822</b>	<b>10,086</b>	<b>9,698</b>	<b>9,720</b>	<b>11,554</b>	<b>12,706</b>	<b>13,812</b>	<b>15,028</b>
Change (%)	17.6	14.3	-3.8	0.2	18.9	10.0	8.7	8.8
Employee expenses	4,847	5,504	5,545	5,338	5,880	6,468	6,953	7,474
Interest expenses	289	495	423	864	1,073	1,234	1,419	1,632
Depreciation	155	153	150	614	542	525	500	475
Others	3,531	3,935	3,580	2,905	4,060	4,480	4,941	5,447
<b>Profit Before Tax</b>	<b>5,220</b>	<b>8,524</b>	<b>7,572</b>	<b>7,529</b>	<b>14,308</b>	<b>14,634</b>	<b>15,330</b>	<b>16,940</b>
Change (%)	39.5	63.3	-11.2	-0.6	90.0	2.3	4.8	10.5
Tax	1,835	2,989	2,665	2,109	3,631	3,713	3,890	4,298
Tax Rate (%)	35.1	35.1	35.2	28.0	25.4	25.4	25.4	25.4
<b>PAT</b>	<b>3,386</b>	<b>5,535</b>	<b>4,907</b>	<b>5,420</b>	<b>10,677</b>	<b>10,921</b>	<b>11,440</b>	<b>12,641</b>
Change (%)	41.8	63.5	-11.3	10.4	97.0	2.3	4.8	10.5
Proposed Dividend	2,468	3,646	3,646	3,825	6,940	7,644	8,580	9,481

<b>Balance Sheet</b>						<b>(INR m)</b>		
<b>Y/E March</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Equity Share Capital	1,611	1,611	1,611	1,611	1,611	1,611	1,611	1,611
Reserves and Surplus	3,404	6,866	8,862	10,485	16,610	19,886	22,746	25,907
<b>Net Worth</b>	<b>5,015</b>	<b>8,477</b>	<b>10,473</b>	<b>12,095</b>	<b>18,221</b>	<b>21,497</b>	<b>24,357</b>	<b>27,518</b>
Borrowings	3,987	6,771	4,518	14,998	35,238	40,524	46,603	53,593
Other Liabilities	11,423	13,491	31,655	17,335	28,350	31,185	34,303	37,733
<b>Total Liabilities</b>	<b>20,424</b>	<b>28,739</b>	<b>46,646</b>	<b>44,428</b>	<b>81,809</b>	<b>93,206</b>	<b>1,05,263</b>	<b>1,18,844</b>
Cash and Investments	9,952	15,499	31,515	24,139	38,822	48,862	55,077	62,015
Change (%)	55.3	55.7	103.3	-23.4	60.8	25.9	12.7	12.6
<b>Loans</b>	<b>50</b>	<b>5,782</b>	<b>4,033</b>	<b>5,709</b>	<b>29,015</b>	<b>29,015</b>	<b>33,367</b>	<b>38,372</b>
Net Fixed Assets	375	421	476	2,061	1,688	1,857	2,043	2,247
Net Current Assets	10,048	7,037	10,623	12,520	12,285	13,472	14,777	16,211
<b>Total Assets</b>	<b>20,424</b>	<b>28,739</b>	<b>46,646</b>	<b>44,428</b>	<b>81,809</b>	<b>93,206</b>	<b>1,05,263</b>	<b>1,18,844</b>

E: MOFSL estimates

## Financials and valuations

<b>Ratios</b>	<b>(%)</b>							
<b>Y/E March</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
<b>As a percentage of revenue</b>								
Brokerage Income	55.2	55.0	54.0	54.9	58.2	56.0	53.0	51.3
Income from Services	35.5	35.2	33.2	30.2	26.9	28.3	30.3	31.6
Interest Income	7.8	8.5	10.4	13.6	13.3	15.1	15.9	16.2
Other Income	1.5	1.3	2.4	1.2	1.6	0.6	0.8	0.9
<b>Total cost</b>	<b>62.8</b>	<b>54.2</b>	<b>56.2</b>	<b>56.4</b>	<b>44.7</b>	<b>46.5</b>	<b>47.4</b>	<b>47.0</b>
Employee Cost	34.5	29.6	32.1	30.9	22.7	23.7	23.9	23.4
Opex (excluding employee) Cost	28.3	24.6	24.0	25.4	21.9	22.8	23.5	23.6
<b>PBT</b>	<b>37.2</b>	<b>45.8</b>	<b>43.8</b>	<b>43.6</b>	<b>55.3</b>	<b>53.5</b>	<b>52.6</b>	<b>53.0</b>
<b>PAT</b>	<b>24.1</b>	<b>29.7</b>	<b>28.4</b>	<b>31.4</b>	<b>41.3</b>	<b>39.9</b>	<b>39.3</b>	<b>39.5</b>
<b>Profitability Ratios (%)</b>								
RoE	75.3	82.0	51.8	48.0	70.4	55.0	49.9	48.7
Dividend Payout Ratio	72.9	65.9	74.3	70.6	65.0	70.0	75.0	75.0
<b>Valuations</b>								
BVPS (INR)	15.6	26.3	32.5	37.5	56.5	66.7	75.6	85.4
Change (%)	25.9	69.0	23.5	15.5	50.6	18.0	13.3	13.0
Price-to-BV (x)				<b>11.3</b>	<b>7.5</b>	<b>6.4</b>	<b>5.6</b>	<b>5.0</b>
EPS (INR)	10.5	17.2	15.2	16.8	33.1	33.9	35.5	39.2
Change (%)	41.8	63.5	-11.3	10.4	96.9	2.3	4.8	10.5
Price-to-Earnings (x)				<b>25.2</b>	<b>12.8</b>	<b>12.5</b>	<b>11.9</b>	<b>10.8</b>
DPS (INR)	6.4	9.4	9.4	11.0	21.5	23.7	26.6	29.4
Dividend Yield (%)				<b>2.6</b>	<b>5.1</b>	<b>5.6</b>	<b>6.3</b>	<b>6.9</b>

E: MOFSL estimates

NOTES



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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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